UNITED NATIONS
WORLD ECONOMIC SURVEY

EMBARGO
NOT FOR RELEASE UNTIL THURSDAY, 24 JUNE 1993, 12 NOON EST

SLOW WORLD GROWTH TO CONTINUE, UN REPORT WARNS

China, Asia show vigorous growth, but some economies in transition face threat of turmoil

With no signs of accelerated output in developed countries overall "the resumption of growth remains the overriding issue in the world economy in 1993," warns the United Nations 1993 *World Economic Survey* published today. Despite faster growth in a number of developing countries and in particular China, world output is forecast to grow by only 1.5 per cent this year and 3 per cent in 1994 from 0.6 per cent in 1992 (see table, page 2). Russia and other economies in transition are expected to experience a further 10 per cent fall in output this year after a near 17 per cent decline in 1992, while growth in Africa and Latin America, will show only modest improvements, despite some hopeful signs of recovery in the latter.

"Developed countries can provide only a weak pole of growth for the rest of the world," the *Survey* says. While a hesitant recovery appears to be under way in the United States, Canada and the United Kingdom, Japan's output will barely rise – to a projected 1.5 per cent from 1.3 per cent in 1992 – and in France and Italy output growth is forecast to slow, and to actually decline in Germany by some 0.5 per cent.

Even in the three or four industrial countries where growth has resumed, continuing unemployment has made consumers reluctant to spend. In many countries at least one in 10 workers was unemployed in 1992 and this situation is not expected to ease this year. "Even where credit is cheap, there have been few takers," the *Survey* notes, further constraining demand. Despite mounting social problems, fears over renewed inflation continue to make governments fiscally cautious – neglect has been replaced with only "tentative activism," in sustaining economic growth, the *Survey* observes.

Mixed fortunes for developing countries

Overall, developing countries are registering strong growth, a significant development which represents "a major boost in the growth of per capita income," this year's *Survey* says. It argues that the acceleration of growth, under way since last year and which is forecast to continue in 1994, has begun to improve living standards of the large majority of the population in the countries enjoying growth of 5 per cent or more a year. These countries now include more than half the population of the developing world, the *Survey* observes. But strongly warning against any complacency, it points out that "500 million people live in countries where output stagnated or declined."

For many developing countries, hesitant recovery in industrial countries has meant continuing poor demand for their exports and a further fall in the price of their vital raw material exports in particular, many of which are already at historic lows. For Africa and Latin America, as well as for oil-producers – oil prices are predicted to be an unchanged $18 a barrel on average this year – this presents a major constraint on growth prospects. At 3 per cent, Africa's expected growth this year will merely stem the fall in per capita output under way for many years. A similar level of growth expected for Latin America will mean that only limited inroads can be made in reducing the 40 per cent of the region's population now living in extreme

Published by the United Nations Department of Public Information

poverty, despite efforts in a number of countries to focus more resources on poverty eradication.

China's unique style

In contrast, Asia is expected to show continued strong growth, of some 5.5-6 per cent, with China registering a staggering 11 per cent after growth of close to 13 per cent in 1992 (see table, page 4). A special study in this year's *Survey* shows the unique style of China's recent economic success. Growth has been predominantly in the non-state sector. This sector's share of industrial output has risen from 25 per cent in 1980 to 46 per cent in 1991. But while China has actively sought to subject all production to market forces, this has been without significant privatization of state assets. "While accumulation of wealth seems to be a major motivation of entrepreneurs, there was no necessary link of entrepreneurship to private ownership," the *Survey* says. "Collectively-owned enterprises were the largest source of the growth of entrepreneurial activities in China in the 1980s," it says.

Rather than undertaking the large-scale privatization of public assets now under way in Russia and Eastern Europe, as well as Africa, China has concentrated on providing managers with wage and other incentives, coupled with price and market reforms, which has enabled the non-state sector to compete with the state sector. Autonomy for individual enterprises has varied widely across regions, but rural collective enterprises have seen rapid income growth, often supported and encouraged by local government.

The *Survey* warns, however, that there is a danger of "overheating" of the economy, pointing to the rapid growth in money supply, inadequate growth in government revenues, and inflation in urban areas. It also argues for more clearly defined property rights and other aspects of the legal framework, the removal of domestic market barriers, and warns of the problem of frequent government interventions in collective enterprises "which have hindered their efficient operation."

Growth of the world economy (1988-1994)
(Annual percentage change)

	1988	1989	1990	1991	1992	1993*	1994*
World output	4.4	3.2	1.6	0.2	0.6	1.5	3.0
Developed market economies	4.4	3.3	2.3	0.7	1.5	1.5	3.0
Economies in transition	4.5	2.1	-6.3	-9.0	-16.8	-10.0	0.0
Developing countries	4.4	3.5	3.4	3.4	4.9	5.0	5.0
World trade	8.1	7.8	5.1	3.6	4.5	5.8	6.4

Source: United Nations, *World Economic Survey 1993*
* Figures for 1993 and 1994 are forecasts based on Project LINK.

Economies in transition face social turmoil

China's experience contrasts sharply with the difficulties of economic transition now being experienced in Russia and a number of other countries of the former Soviet Union and Eastern Europe. While Hungary and Poland should see a resumption of growth this year most other economies will suffer a further sharp fall in output, with zero growth overall again expected in 1994. There will be no relief for incomes, which have plunged sharply since 1989. With open unemployment, previously unknown, continuing to grow, and a strong risk that inflation will soar in some countries, social stress will remain acute and represents a potent threat to the process of economic transition. "Crime rates have jumped," the *Survey* observes, while easier travel has facilitated a mounting problem of drug trafficking and drug-related crimes and there has been an alarming increase in deaths from murder, alcohol abuse and suicide.

Western assistance has exceeded $170 bn in commitments since 1990, but slow disbursements have meant actual amounts received have been far less than expected. Western advice has also been "on many occasions poorly conceived and haphazard," the *Survey* says. "The world economy stands to lose in the long run if Western external assistance to Russia and other countries in economic tran-

sition is not better coordinated and targeted," the *Survey* warns. Western assistance will also be made less effective if developed countries do not open their markets to exports from these economies, it argues. Despite new trade agreements with the European Community and others, exporters continue to complain of market restrictions.

Growth in financial flows

The *Survey* reports a welcome continuation in the strong positive net transfers to developing countries first registered in 1991. Net transfers were $51.9 bn in 1992, compared with $47.3 bn in 1991, which followed four consecutive years of net outflows. West Asia – at $27.2 bn – again showed a significant net transfer, though down on 1991 when foreign assets were cashed and funds borrowed in order to finance the Gulf War. Other Asian economies also registered another year of strong positive inflows. For Latin America there was a remarkable turnround, from a $7.2 bn outflow in 1991 to a $6.9 bn inflow in 1992 – its first positive net flow since the start of the international debt crisis in 1982.

"Africa was the only major developing country region not to share in the increased financial transfers," the *Survey* says. While there was a net inflow of $10 bn for the countries of sub-Saharan Africa, excluding Nigeria, substantial payments by North Africa and Nigeria meant a net outflow of $1.6 bn in 1992 for the continent as a whole. If the region's terms of trade losses are factored in, Africa suffered a significant outflow of resources in 1992.

Much of the growth in financial flows to developing countries is attributable to increased private flows, to which Africa has very limited access. The *Survey*, however, warns of a "disquieting" trend in official resource flows on which Africa and low-income countries depend for the bulk of their financial inflows. Of particular concern, it says, is a decline in commitments by multilateral institutions. In 1992, commitments by the UN were $3.62 bn, against $3.98 bn in 1991. Overall, multilateral commitments totalled $38.7 bn in 1992 against $39.8 bn in 1991.

The decline reflects the general pressure on aid budgets resulting from public spending cutbacks in developed countries. Japan is one of the few major donors expected to significantly increase its official development assistance (ODA) over the next five years. But the world's aid needs cannot be met by Japan alone, the *Survey* warns. "The political and economic role of ODA needs to be rethought and the image and effectiveness of aid policies need to be re-examined if a voter constituency for international assistance is to be rebuilt," the *Survey* argues.

Rising world dependence on OPEC oil

In a special look at world energy trends, the *Survey* points to a growing world dependence on oil supplies from the Organization of Petroleum Exporting Countries (OPEC), and in particular from the Persian Gulf. "OPEC now produces 40 per cent of the world's output, up from 30 per cent in 1985. It possesses 77 per cent of the world's proven reserves of one trillion barrels. The Persian Gulf alone contains two-thirds of those reserves and will be the most significant source of incremental supply in the future," the *Survey* says. OPEC production could rise to over 31 million barrels a day by 2000 from 24.4 million in 1992, the *Survey* concludes, though "very large" investments will be required to achieve this expansion in capacity. This seems to be one factor behind a reintegration of the international oil industry. Major international oil companies are being offered joint ventures and partnerships with nationalized industries in some OPEC countries, while OPEC producers are expanding downstream to the consumer end of the market.

Hunger amid plenty

In another special study, the *Survey* contrasts the continuing prevalence of famine and hunger in the world with the generally adequate level of food stocks at the global level. World stocks of food are adequate to meet any conceivable shortfall in any country or region through imports, the *Survey* says. But "warfare has become the most important determinant of famine," it argues, pointing to the experience of Somalia as one of many recent tragic examples.

And hunger, it observes, is intimately related to poverty. Policies that simply involve the distribution of food and do not include health care, sanitation, education and other

components of a broader approach are not likely to have a lasting impact on hunger, the *Survey* concludes.

It points to the success in countering the severe drought in southern Africa in 1992 to show that there is no necessary link between local food availability and famine. Despite production losses of up to 70 per cent, a massive response by the international community and regional governments, coordinated through the UN and the Southern African Development Community, succeeded in averting a large-scale famine.

Developing countries: rates of growth of real GDP, by country group (1983-1993)
(Annual percentage change)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]	1993[b]
All developing countries	1.8	4.1	3.5	3.8	4.0	4.4	3.5	3.4	3.4	4.9	5.0
By Region											
Latin America	-2.6	3.8	3.6	4.2	3.0	0.7	1.1	0.1	2.9	2.2	3.0
Africa	1.4	0.8	5.0	1.9	0.2	2.3	3.0	2.9	2.0	1.4	3.0
of which, sub-Saharan Africa[c]	0.6	1.2	1.9	2.6	0.6	2.9	2.0	1.2	-0.2	0.3	3.0
West Asia	-0.6	-1.3	-3.6	-3.1	-0.8	0.0	3.2	1.9	-0.1	6.6	6.0
South and East Asia	6.0	5.7	3.6	6.2	6.9	8.5	6.1	6.4	5.3	4.9	5.0
Mediterranean	1.0	3.7	2.8	5.5	1.1	0.8	0.3	1.1	-7.9	-5.2	3.0
China[d]	10.2	14.5	13.0	7.8	9.4	10.9	3.6	5.2	7.7	12.8	11.0

Source: United Nations, *World Economic Survey 1993*

[a] Preliminary estimates.

[b] Forecast, based in part on Project LINK. Estimates are rounded to the nearest half percentage point.

[c] Excluding Nigeria

[d] Net material product until 1984; data for 1981-1989 are Government estimates.

World Economic Survey 1993, published by the United Nations Department of Economic and Social Information and Policy Analysis. Document E/1993/60 in Arabic, Chinese, English, French, Russian and Spanish or Sales No. 93.II.C.1 in English, French and Spanish, available for $55.00 from United Nations Publications, 2 UN Plaza, Room DC2-853, New York, NY 10017, USA, or Palais des Nations, CH-1211, Geneva, Switzerland.

For further information, contact Mr. C. Ossa, Director, Macroeconomic and Social Policy Analysis Division, Department of Economic and Social Information and Policy Analysis, 2 UN Plaza, Room DC2-2170, United Nations, NY 10017, USA Telephone:(212) 963-4712

Published by the United Nations Department of Public Information
DPI/1388—June 1993—5M